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24 MAY 1963

MEMORANDUM FOR: Director of Central Intelligence
THROUGH : Deputy Director (Intelligence)
SUBJECT : Cuban Activity in the World Sugar Market

1. The attached report has been prepared in response to your request for information about Cuban activity in the world sugar market.

2. Although the volume of Cuban sugar sales in 1963 probably will decline to about two-thirds the level in 1962, the value of sugar exports probably will decline by only about 10 percent.

3. Available evidence, though not overwhelming, indicates that Cuban sales of sugar to the Soviet Bloc for 1963 are based on a price of 4 cents per pound. We have no evidence that the USSR is negotiating new contracts at higher prices.

4. The Cubans have engaged in the buying and selling of sugar on the London Futures Exchange, although based on information presently available, they appear to be net sellers. As a result of these transactions, the Cubans could obtain some of the financial gains from the present high price.

5. Recent statements by Cuban officials about sugar do not appear to have been designed to cause the price of sugar to rise although one statement has probably had a buoyant effect on the market as it was interpreted here.

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OTTO E. GUTHE
Assistant Director
Research and Reports

W - I/IV
J - D/I
S - 24/EE

Enclosure: J - 04/E

1. Cuban Activity in the World Sugar Market

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ORR/I/LA
24 May 1963
8-1009

Cuban Activity in the World Sugar Market

A. Income from Sugar Exports in 1963

Since 10 May, the date of ORR's last estimate of Cuba's total export income in 1963, new information has become available and world sugar prices have continued to rise, both of which have resulted in an upward revision of our estimate. On the basis of the evidence and assumptions presented below, our present estimate of the total value of Cuban exports in 1963 (including sugar and all other commodities) is \$465 million-\$500 million. In 1962, total exports were valued at about \$530 million.

The evidence currently available indicates that Cuba will sell 1.0 million-1.2 million metric tons of sugar to the free world during 1963 compared with 1.4 million metric tons in 1962. [redacted] provides evidence that 600,000-800,000 metric tons had been sold to non-Bloc countries by mid-February 1963 and that additional sales were made after that date. In late February, an official of the Cuban embassy in Tokyo stated that Cuba would sell 1.2 million metric tons to the free world this year. Later, in mid-April, Carlos Rafael Rodriguez told a [redacted] that free world sales had been set at one million metric tons.

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Of greater uncertainty than the volume of sugar to be shipped to the free world by Cuba in 1963 is the price at which the sugar is sold. Negotiations for the sale of the bulk of the 1963 harvest were well underway by last October when prices were still relatively low. We have evidence that between late October and early December 1962 Cuba was negotiating sales at price levels of about \$70 per metric ton (3.2 cents per pound) to \$85 per metric ton (3.9 cents per pound), both F.O.B. Some sales were made during this early period but the total volume is not known. Nor is it clear what the price terms of these sales actually were. Cuba sells sugar under a variety of price arrangements. Some sales are made on the basis of the spot price prevailing at the date of the contract, some on the basis of the spot price prevailing as of the month of delivery, and some on the basis of an average price in the month of delivery but with specified maximum and minimum price. Thus Cuba will deliver sugar to the free world during 1963 at prices ranging all the way from the \$70 per metric ton agreed to in some cases during October or November of last year to probably at least the \$263 per metric ton prevailing currently in the world market. What the average will be cannot be determined on the basis of our present evidence. We have estimated that free world sales will bring Cuba between \$120 million and \$150 million, but these earnings could amount to as much as \$200 million.

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Given the estimated range of exports to the free world, sales to the Bloc will be 2.0 million-2.5 million metric tons compared to 3.7 million metric tons in 1962. Testimony [redacted]

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[redacted] relating to Cuba's negotiations for the 1963 trade protocol with Poland indicate that the Bloc is unwilling to pay more than the 4 cents per pound (\$83 per metric ton) that has been the standard Bloc buying price since the beginning of 1961. Thus, Cuban sugar exports to the Bloc will be valued at \$175 million-\$220 million, depending upon the final amount shipped, or somewhat less than earlier estimates.

Assuming that 1963 sugar production is between 3.8 and 4.0 million metric tons and that domestic consumption continues at about 0.5 million metric tons, total export earnings from sugar would be in the range of \$350 million-\$400 million. The value of sugar exports during 1962 was about \$430 million.

B. Use of the Futures Market

The Cubans sold, during February, March, and April 1963 sugar futures on the London Futures Exchange through at least four brokers. The contract delivery months sold included December 1963, and March and May 1964. Cuba, therefore, is taking some advantage of the current price rise. Sales of futures by the Cubans at this time indicate that they expect sugar futures prices to be no higher in 1964, than they are presently, and possibly to be lower. By selling futures now the Cubans forego the opportunity to take advantage of the possibility of higher sugar prices.

As of 26 April 1963, the Cubans had sold approximately 125,000 tons of sugar on the London Futures Exchange. In view of the present bullish attitude of the market it is quite probable that Cuba could make substantial additional sales at relatively high prices. It is also possible that if Cuba did make significant sales this fact would become apparent to the dealers in the market. However, by working through many brokers and by spreading out the sales over many months large sales might be concealed. In addition, the dealers might become aware of such transactions only after they had been completed.

A difficulty faced by the Cubans after making sales of futures is that, if the price of the sugar futures increases, a seller is called upon to pay the difference between the contract futures price and the current futures price. Sugar futures prices have continued to climb since Cuba started selling futures and as a consequence margin calls are presently being made on Cuba by the brokers in London. If margin calls are not answered a broker normally liquidates the contract. If Cuba presently has sold futures contracts totalling 125,000 tons, every time the price of sugar increases one cent a pound, Cuba will be required to pay margins of \$2.75 million. If sugar prices continue to rise Cuba will be forced to invest significant quantities of hard currency to maintain her short position.

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In addition to having sold the above sugar futures, Cuba had purchased, in February 1963, futures with an August 1963 contract delivery date, totalling nearly 25,000 tons. In view of the price increases that have occurred since mid-February the Cubans have made a substantial profit from this transaction. Whereas Cuba apparently expected the price of distant futures to decline, she expected nearby futures to increase. At the present time, we know of no other futures purchased by Cuba.

C. Recent Statements About Production in 1963

There is little or no evidence that recent official Cuban statements about production of sugar in 1963 have been made specifically to cause an increase in the world price of sugar. Several Cuban officials have made public statements since the beginning of May 1963 about various aspects of the 1963 sugar crop, but we believe none of them reported the volume of sugar produced to date or estimated the amount to be produced during 1963. In his speech on May Day, Raul Castro stated that 20 percent of the crop remained to be milled but did not provide any other information about the size of the crop. President Dorticos stated in a speech in Matanzas on 11 May on the occasion of the 4th national sugar harvest checking that the size of this year's sugar crop was to be regretted, but he did not quantify the crop. Two other officials made speeches in Matanzas on 11 May but neither of these estimated total sugar output in 1963 or provided numbers which by themselves could be used to estimate output. The estimate of Cuba's final total production of sugar in 1963 of 2.9 million tons contained in the New York Times article on 16 May 1963 appears to be incorrect. The author apparently estimated total sugar production by assuming that output of high-quality raw sugar is the same as output of raw sugar. FBIS reported a speech on 11 May 1963 by Raul Esparza, national production chief for the Consolidated Sugar Enterprise, which had been given only a few minutes before Dorticos' speech, in which he stated that production of high quality sugar so far has been 2.5 million tons. On the same day, at the same conference, Deputy Minister of Industries, Orlando Borrego, made a speech in which he stated that the national total of cane left to mill was 14.6 percent. The estimate of total output of sugar of 2.9 million tons in the Times article can be calculated from the above two figures. Such a calculation, however, does not include raw sugar produced that is not high quality. Esparza was discussing only sugar of at least 93 degree polarization and did not discuss the lower quality sugar produced by Cuba. 25X1

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Furthermore, use of the 14.6 percent figure cited by Borrego for cane left to be milled to calculate total crop probably understates the amount of sugar that still can be produced. Subsumed in this national figure are wide variations for the individual provinces. For example, in Oriente Province about 20 percent remained to be milled and the yield in this province generally is above the national average; in fact, in 1962 it was the only province which exceeded the national average.